FIFTEENTH ANNUAL REPORT

2000/2001

THE MANITOBA LAW FOUNDATION
LA FONDATION MANITOBAINE DU DROIT

The Honourable Minister of Justice
and Attorney General
Department of Justice
Legislative Building
Winnipeg, Manitoba

Dear Minister:

I have the honour to submit to you, in accordance with Subsection 76(1) of The Law Society Act (the "Act"), the fifteenth Annual Report of **The Manitoba Law Foundation**.

Financial Statements for the year ended 31 March 2001 were examined by the Foundation's auditors, PricewaterhouseCoopers LLP, Chartered Accountants, whose report dated the 4th of May 2001 is attached. The Financial Statements were approved by the Foundation's Directors at a meeting of the Board held on the 14th of June 2001.

I am pleased to set out below some comments on the financial results, transactions and other information regarding the fiscal year just completed.

COMPOSITION OF THE BOARD OF DIRECTORS

The affairs of the Foundation are administered by a Board of Directors appointed pursuant to the provisions of Section 66 of the Act. Under the provisions of Subsection 68(1) of the Act terms of appointment may range from 2 to 4 years and Directors may be reappointed. Directors whose terms have expired continue until replaced. Members of the Board during the fiscal period included:

A. Appointed or reappointed by the Minister of Justice

Richard M. Swystun, Chairperson	(to 10 January 2003)
Elizabeth Beaupre, Vice-Chairperson	(to 04 January 2001, not replaced)
Dirk Blevins	(to 05 May 2002)
Davis Daycock	(to 10 January 2003)
Joan Nemetchek	(term expired 12 September 1999)
Catherine Ann Steven	(to 10 January 2003)
Grant A. Stefanson	(term expired 12 September 1999)

B. Appointed by The Law Society of Manitoba

Donald G. Douglas	(to 31 August 2001)
John E. Neufeld, QC	(to 31 August 2003)
Lori T. Spivak	(to 31 August 2002)

C. Appointed by the President of the Manitoba Branch, Canadian Bar Association

Shawn D. Hughes	(to 07 November 2001)

D. Dean of the Faculty of Law, University of Manitoba (ex officio)

Harvey Secter

MEETINGS OF THE BOARD OF DIRECTORS

Section 73 of the Act requires that the Board meet at least four times annually. In the fiscal year ending 31 March 2001 the Board met in Winnipeg in June, September and December in 2000 and in January and March in 2001.

FINANCIAL HIGHLIGHTS

	1999-2000	2000-2001	Change
Interest on Lawyers' Trust Accounts	$ 2,657,869	$ 3,787,815	+ 42.5%
Interest on investment	370,917	286,775	- 22.7%
Total Revenues	$ 3,028,786	$ 4,074,590	+ 34.5%

REVENUES

The Foundation's gross revenues increased by 34.5% from the previous fiscal year. The change was due to a significant increase in Interest on Lawyers' Trust Accounts (IOLTA) revenues over the previous year. In fiscal year 2000/2001, there was an increase of approximately one percentage point in the average prime rate over the previous year. For every one percent change in the average prime rate the Foundation can typically gain or lose in excess of $1 million in IOLTA revenues.

OPERATIONAL COSTS

Operational expenditures for the year were $137,031. There was a small increase of $8,593 over the previous fiscal year, due to transitional costs for the new administrative and investment structures. These additional expenses will likely not occur in the coming year. Operational expenses for the Foundation peaked in 1993/94 at $162,830. In the years since then, the Foundation has streamlined its operations to reflect reduced revenues. During those years, administrative operations were contracted out to reduce costs. The new administrative structure with a new Executive Director has now been put in place, and operating expenses will likely stabilize.

INVESTMENTS

Since its inception, the Foundation has implemented an investment policy combining the acquisition of low-risk marketable, mid- and short-term securities. In the previous fiscal year, the Board reviewed its investment policy and strategy and explored a variety of alternatives to this strategy. In November of 2000, the Foundation entered into a formal relationship with The Winnipeg Foundation for the management of the long-term investments of the Foundation. The Manitoba Law Foundation now participates in the Consolidated Trust Fund of The Winnipeg Foundation through the Manitoba Law Foundation Managed Fund. The Foundation receives an annual income from The Winnipeg Foundation that is determined based on the average market value (calculated over a three year period) of the Consolidated Trust Fund. Amounts not required for the short-term cash flow needs of the Foundation were transferred to The Winnipeg Foundation. A small number of short-term investments were retained by the Foundation for its more immediate cash flow needs.

Prior to the transfer of funds to The Winnipeg Foundation, unallocated amounts and sums not needed immediately by funded programs and projects were invested according to the Foundation's investment policy. As stated above, some short-term investments continue to be held directly by the Foundation. In the current fiscal year,

the Foundation earned a total of $286,775 in interest (including the prorated annual income from The Winnipeg Foundation and an adjustment for accruals). The decrease from the previous year is attributable to the Foundation's liquidation of certain longer-term investments for transfer to The Winnipeg Foundation. It is difficult to compare, on a percentage basis, the 2000/2001 fiscal year's investment performance to previous years' performances because of this liquidation and transfer. The Foundation will be monitoring the investment performance of both its long and short-term investments on an ongoing basis to ensure that returns are consistent with those found in other law foundations.

RESERVE FOR FUTURE GRANTS

The Foundation maintains a Reserve for future discretionary grants. In March 1999, the Board set the maximum amount for the Reserve at $3.5 million.

The major purpose for the Reserve is to provide some stability during periods of revenue reductions. The Reserve has traditionally been invested in securities maturing in periods not exceeding seven years. In November 2000, the funds that make up the Reserve Fund were invested in units of the Consolidated Trust Fund of The Winnipeg Foundation.

In the fiscal year just concluded the Foundation added $390,264 to its Reserve for Future Grants to bring the level to its maximum of $3.5 million.

REVENUE PROJECTIONS

On the basis of current prime interest rates, the Foundation anticipates that revenues from interest on lawyers' trust accounts in fiscal 2001-2002 may decline substantially. A decline of just 1% in the average prime rate for the upcoming fiscal period may translate into a decline of approximately $1 million dollars in revenues. Exaggerated swings in revenue, sensitive to interest rate changes, are endemic to law foundations.

GRANTS

A. Allocations under the provisions of Subsection 65(1) of the Act (Mandatory Grants)

The Act provides that the Foundation allocate a portion of interest on lawyers' trust accounts received in the previous fiscal year to The Legal Aid Society of Manitoba (50% or a minimum of $1,007,629) and The Law Society of Manitoba (16.67% or a minimum of $335,383) for its educational purposes. In the event that interest on lawyers' trust accounts, after deduction of the Foundation's operating expenses, is not sufficient to pay the statutory minimum, the Act provides for pro rata sharing of net revenues between the two statutory grant recipients. The following grants were paid and accrued in the 2000/2001 fiscal year.

1. The Legal Aid Services Society of Manitoba

Disbursed	$ 1,328,935
Accrued	1,893,908

2. The Law Society of Manitoba

Disbursed	$ 442,987
Accrued	631,277

B. Discretionary Grants under the provisions of Subsection 65(4) of the Act

Monies available for discretionary grants consist of the surplus at the end of the previous fiscal year after the deduction for operating expenses, mandatory grants, and, in years when revenues are sufficient and where the Reserve requires it, a contribution to the Foundation's Reserve for future grants. To this may be added grants or portions of grants previously approved and subsequently cancelled or returned unused. As noted above, the Board allocated $390,264 to the Reserve for Future Grants and allocated an additional $144,162 to a newly created Special Grant Fund. The Foundation had $594,000 available for discretionary grants. The entire amount was approved for grants in the fiscal year.

Ten discretionary grants were approved, as listed here, in accordance with the objects provided in Section 63 of the Act.

LEGAL EDUCATION

Community Legal Education Association (Manitoba), Incorporated
General Operating Grant 00/01 $ 38,000

Faculty of Law, University of Manitoba
General Funding Grant 00/01 $ 73,000

Native Law Centre, University of Saskatchewan
General Operating 00/01 $ 10,000

LEGAL RESEARCH

Legal Research Institute at the University of Manitoba
General Operating 00/01 $ 50,000

LEGAL AID SERVICES

Legal Aid Services Society of Manitoba
Public Interest Law Centre 00/01 $ 150,000
University Legal Aid Clinic 00/01 $ 45,000

Community Legal Education Association (Manitoba), Incorporated
Law Phone-In, Lawyer Referral Service 00/01 $ 43,000

LAW REFORM

Manitoba Law Reform Commission
Research Consultant(s) 00/01 $ 50,000

LAW LIBRARIES

E. K. Williams Law Library, University of Manitoba
Acquisitions and Maintenance 00/01 $ 35,000

The Manitoba Law Library Inc.
Courthouse Libraries 00/01 $ 100,000

Additional discretionary grants totaling $609,000 were approved conditionally for payment from monies available in 2001/2002.

CHAIRPERSON'S COMMENTS

The 2000/2001 fiscal year was a year of significant change for The Manitoba Law Foundation. Midway through the year, the Foundation's Board Consultant and former Executive Director, Dr. Bill Greenaway, retired. On behalf of the Foundation, I would like to extend thanks to Bill for the dedication and commitment that he displayed throughout the 13 years of his involvement with the Foundation. Many of the financial strengths and benefits that the Foundation currently enjoys are the result of Bill's careful planning and the systems and procedures that he put into place. He was an excellent administrator and a wonderful spokesperson for the Foundation.

In September of 2000, the Foundation hired a new Executive Director; namely, Barbara Palace. Barb brought many years of experience as an administrator in the voluntary services sector with her. Given her background, Barb has been able to bring a fresh perspective to the Executive Director position. Since joining the Foundation, she has introduced a number of positive new initiatives for the Board's consideration and I am confident that she will continue to show strength and administrative leadership in the months, and years, ahead.

In addition to the changes that occurred in relation to the Foundation's administrative structure over the past fiscal year, some significant changes were also made in relation to financial matters. On this point, in the fall of 2000, the Foundation made a major change in the way it handles its investments by entering into a formal investment relationship with The Winnipeg Foundation. On November 7, 2000, The Manitoba Law Foundation entered into a Managed Fund Agreement with The Winnipeg Foundation, pursuant to which a substantial portion of The Manitoba Law Foundation's funds were invested in units of The Winnipeg Foundation's Consolidated Trust Fund. It is anticipated that, through this formal relationship, The Manitoba Law Foundation will be able to share in the excellent investment returns that The Winnipeg Foundation has been able to generate on its sizable Consolidated Trust Fund. In addition, by tapping into The

Winnipeg Foundation's investment experience, and thereby reducing the number of investment decisions that would otherwise have to be made by our Executive Director, it is anticipated that our new Executive Director will have more time available to dedicate to other tasks.

While the Board's attention was focused on the changes which were being made in the administrative and investment areas mentioned above, some rather positive developments occurred in the Foundation's revenue stream in the early part of the past fiscal year. On this point, the opening half of the 2000/2001 fiscal year coincided with a period of relatively high interest rates and lawyer's trust account activity. These factors, in combination, brought about a rather favourable increase in the IOLTA ("interest on lawyer's trust accounts") revenues received by the Foundation over the past fiscal year. As mentioned in earlier Annual Reports, rather small movements in the prime rates of interest charged by Canadian financial institutions will translate into rather significant fluctuations in the IOLTA revenues received by the Foundation. Although, the prevailing prime rates of interest in Canada began to drop in the latter part of the past fiscal year, overall the Foundation experienced a substantial increase in the IOLTA revenues in the past fiscal year when compared to the prior year.

In recent months, the Foundation's Board has endeavoured to gain a better understanding of precisely how fluctuating business cycles impact upon the Foundation's revenue stream. Earlier this year the Board held a full-day planning retreat to address the question of how to deal with periodic fluctuations in the Foundation's revenue stream and, in particular, how to deal with the rather significant increase in revenues experienced in the past fiscal year. One of the outcomes of that meeting was a decision on the part of the Board to implement a major grant program and the Board enthusiastically awaits the opportunity to advance that particular initiative in the coming year.

On behalf of the Foundation, I would like to extend thanks to all of the Foundation's Directors and administrative staff who served so faithfully in the past year.

RICHARD M. SWYSTUN
Chairperson
The Manitoba Law Foundation

21 June, 2001

FINANCIAL STATEMENTS
31 MARCH 2001

AUDITORS' REPORT

May 4, 2001

To the Board of Directors of The Manitoba Law Foundation:

We have audited the balance sheet of **The Manitoba Law Foundation** as at March 31, 2001 and the statements of revenue, expenditures and grants and changes in net assets for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting described in note 2 to the financial statements.

"PricewaterhouseCoopers LLP"
Chartered Accountants

BALANCE SHEET
AS AT MARCH 31, 2001

	2001 $	2000 $
Assets		
Cash	705,977	107,876
Investments - at cost (Schedule 1)	6,834,414	5,253,520
Accrued interest - net of amortization of premium on investments (Schedule 1)	67,544	663,934
Capital assets (note 3)	5,285	5,753
	7,613,220	6,031,083
Liabilities		
Grants allocated and undisbursed (Schedule 2)	2,556,685	1,792,922
Net Assets		
Net assets invested in capital assets	5,285	5,753
Net assets internally restricted (note 4)	3,644,162	3,109,736
Net assets unrestricted	1,407,088	1,122,672
	5,056,535	4,238,161
	7,613,220	6,031,083

Statement of Revenue, Expenditures and Grants
FOR THE YEAR ENDED MARCH 31, 2001

	2001 $	2000 $
Revenue		
Interest received on lawyers' trust accounts	3,787,815	2,657,869
Interest earned on investments	286,775	370,917
	4,074,590	3,028,786
Administrative expenditures		
Amortization	3,872	3,452
Audit and legal	12,100	11,762
Bank charges	-	184
Board fees	14,402	15,500
Consulting fees	53,998	66,086
Courier	368	336
Meeting expenses	4,852	3,025
Memberships and dues	1,076	430
Miscellaneous expense	26	144
Office, postage and telephone	5,975	4,701
Rent	7,461	7,452
Salary	21,543	-
Travel	11,358	15,366
	137,031	128,438
Excess of revenue over expenditures	3,937,559	2,900,348
Grants allocated during the year (Schedule 2)	3,119,185	2,316,922
Under allocated revenue for the year	818,374	583,426

Statement of Changes in Net Assets
FOR THE YEAR ENDED MARCH 31, 2001

	Invested capital assets $ (note 3)	Reserve for future grants $ (note 4)	Special Grant Fund $ (note 4)	Unrestricted $	2001 Total $	2000 Total $
Balance – Beginning of year	5,753	3,109,736	-	1,122,672	4,238,161	3,654,735
Under(over) allocated revenue for the year	(3,872)	-	-	822,246	818,374	583,426
Investment in capital assets	3,404	-	-	(3,404)	-	-
Internally imposed restrictions (note 4)	-	390,264	144,162	(534,426)	-	-
Balance – End of year	5,285	3,500,000	144,162	1,407,088	5,056,535	4,238,161

NOTES TO FINANCIAL STATEMENTS - March 31, 2001

1 Nature of the Foundation

The Manitoba Law Foundation (Foundation) was established by Act of the Legislative Assembly of Manitoba and was assented to October 23, 1986. The Foundation receives interest earned on lawyers' trust accounts and disburses grants to organizations specified in the Act and to other organizations at the discretion of the Board of Directors.

The objectives of the Foundation, as set out in the Act, are to encourage and promote the following: (a) legal education, (b) legal research, (c) legal aid services, (d) law reform, and (e) the development maintenance of law libraries.

2 Significant accounting policies

Interest on lawyers' trust accounts

Interest on lawyers' trust accounts is recognized in the Foundation's accounts as the financial institutions advise the Foundation of the amounts. The Law Foundation assumes that solicitors who hold funds in trust for or on account of clients comply strictly with Section 39 of The Law Society Act.

Interest on investments

Interest on investments is recorded in the accounts on the accrual basis.

Capital assets

Capital assets are recorded at cost. Amortization is recorded at rates intended to amortize the cost of capital assets over their useful lives as follows:

Computer equipment	3 year straight-line

Grants

Pursuant to subsection 65(1) of The Law Society Act, grants equal to 50% and 16.67% of the interest received on lawyers' trust accounts annually or $1,007,629 and $335,383, respectively, whichever is greater, are to be paid to The Legal Aid Services Society of Manitoba and The Law Society of Manitoba, respectively. Provision for such grants is recorded annually in the Foundation's accounts. In the event there are insufficient funds to meet these commitments, grants will be calculated on a pro rata basis and will be deemed to be in full satisfaction of the grant obligation.

Grants other than as described above are recorded in the Foundation's accounts in the year of authorization.

3 Capital assets

Capital assets consist of the following:

			2001	2000
	Cost $	Accumulated amortization $	Net $	Net $
Computer equipment	13,759	8,474	5,285	5,753

4 Net assets internally restricted

Reserve for future grants

The purpose of the reserve for future grants is to provide stability during periods of revenue reductions. The Board's policy is to add a minimum of 10% of the revenues, when revenues permit, from interest received on lawyers' trust accounts to the reserve for future grants until the total reserve is $3,500,000. In addition the Board may, at its discretion, transfer additional amounts from unallocated revenue to the reserve for future grants. Reserves are invested in secure investments maturing in periods not exceeding seven years.

Special grant fund

During the year, the Board has, by resolution, created an internally designated Special Grant Fund. The purpose of this fund is to provide a one-time grant for a large-scale project that comes within the objectives of the Foundation and that has significant and long-term impact for Manitobans. Distribution of this fund is planned to commence in fiscal year 2002/2003.

5 Commitments

The Foundation's Board of Directors has conditionally approved 2001/2002 discretionary grants in an amount of $609,000. Should there be insufficient revenue remaining in 2001/2002 after payment of non-discretionary grants and administrative expenditures, these conditionally approved 2001/2002 discretionary grants will be paid firstly from unallocated revenue and secondly from reserve for future grants.

SCHEDULE 1 – INVESTMENTS
FOR THE YEAR ENDED MARCH 31, 2001

	Original cost $	(Premium) discount $	Maturity date $	Coupon rate %	Accrued interest or amortization of discount $	Market value $
Wellington West Capital Inc.						
G.M.A.C. MTN Bonds	455,625	(5,625)	Dec. 3/01	5.55%	3,825	458,344
G.M.A.C. MTN Bonds	489,702	4,298	Jan. 11/02	5.40%	7,982	499,576
Manitoba Builder Bonds	222,000	-	June 15/02	5.50%	9,707	231,668
Winnipeg Foundation	5,667,087	-	-	-	46,030	-
	6,834,414	(1,327)			67,544	1,189,588

SCHEDULE 2

GRANTS ALLOCATED AND UNDISBURSED
FOR THE YEAR ENDED MARCH 31 , 2001

PER SUBSECTION 65(1) THE LAW SOCIETY ACT	Allocated during fiscal 2001 $	Undisbursed as at March 31, 2001 $
The Legal Aid Services Society of Manitoba	1,893,908	1,893,908
The Law Society of Manitoba	631,277	631,277
	2,525,185	2,525,185
PER SUBSECTION 65(4) THE LAW SOCIETY ACT (DISCRETIONARY)		
(A) LEGAL EDUCATION		
Community Legal Education Association		
General Operating – 2000/2001	38,000	-
Faculty of Law – University of Manitoba		
General Funding Grant 2000/2001	73,000	-
Native Law Centre – University of Saskatchewan		
General Operating – 2000/2001	10,000	-
(B) LEGAL RESEARCH		
Legal Research Institute at the University of Manitoba		
General Operating – 2000/2001	50,000	-
(C) LEGAL AID SERVICES		
Legal Aid Services Society of Manitoba		
Public Interest Law Centre 2000/2001	150,000	-
University Legal Aid Clinic 2000/2001	45,000	-
Community Legal Education Association		
Law Phone-In, Lawyer Referral Service 2000/2001	43,000	-
(D) LAW REFORM		
Manitoba Law Reform Commission		
Research Consultant(s) 2000/2001	50,000	-
(E) LAW LIBRARIES		
E. K. Williams Law Library		
Acquisitions and Maintenance 2000/2001	35,000	31,500
The Manitoba Law Library Inc.		
Courthouse Libraries 2000/2001	100,000	-
	3,119,185	2,556,685

In 1986, the Legislature established **THE MANITOBA LAW FOUNDATION** through amendments to The Law Society Act. Financial institutions must pay to the Foundation interest on mixed trust accounts maintained by lawyers practising in Manitoba. This does not include the interest paid on specific trust investments held for individual clients. Mixed trust deposits are usually held by lawyers in circumstances where the administrative cost of segregating the funds would exceed the interest payable to individual clients.

OBJECTIVES

The legislation establishing the Foundation spells out the purposes for which its money can be used. The objects of the Foundation are to encourage and promote:

Legal education;

Legal research;

Law reform;

Legal aid services; and

The development and maintenance of law libraries.

ADMINISTRATION

A Board of ten Directors administers the Foundation. The Minister of Justice appoints five Directors; the Benchers of The Law Society of Manitoba appoint three; the president of the Manitoba Branch of the Canadian Bar Association appoints one. The Dean of the Faculty of Law, University of Manitoba, or a member of the Faculty appointed by the Dean, is a Director. The Minister of Justice designates one of the Directors as Chairperson and another as Vice-Chairperson. The Board meets regularly to decide on grant applications and policy matters including the collection and investment of revenues.

FUNDING GUIDELINES

A summary of the Foundation's granting policy and application forms are available from the Foundation office. In general, projects must fall within the stated objectives as interpreted by the Board of Directors. There are no limits on the amount of grants, but all grants are subject to the availability of funds. The grants mandated by legislation have a prior claim.

The Foundation is willing to fund projects that are creative and innovative as long as they fit its objectives and benefit the public interest.

APPLICATION PROCEDURES

Potential applicants first contact the Foundation office to discuss a proposal and obtain the necessary application forms. Applications are normally considered in May and October each year. In May applications submitted prior to the end of March are considered; in October applications submitted prior to the end of August are considered. Assistance in the preparation of applications is available from the Foundation office. It is the Board of Directors, however, who make all decisions on funding.

Along with the application forms, prospective applicants receive a memorandum to assist in the completion of the package of written materials required by the Board in order to make its decision. Twelve copies of the completed proposal are required.

OBLIGATIONS OF GRANT RECIPIENTS

Grant recipients are required to confirm their obligations by letter in a form approved by the Foundation's Board. Generally, grant recipients must agree to spend the grant money as specified in their application or any variation approved in writing by the Foundation. Funds not spent in accordance with the letter of agreement must be refunded to the Foundation.

The Board of Directors of the Foundation has approved an Evaluation Policy. A memorandum specifying reporting requirements is available from the Foundation office. An independent auditor's report is required unless the Foundation specifically agrees that it shall not be required.